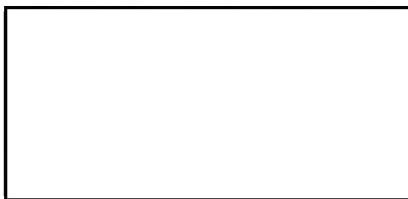


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MINUTES OF A REGULAR MEETING
BOARD OF DIRECTORS
GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

6 July 1961

1. The regular meeting of the Board of Directors of the Government Employees Health Association, Inc. (GEHA, Inc.) was held in Room 1402 "I" Building, on the 6th day of July 1961, with the following Board members present:





Dr. John R. Tietjen



STATINTL

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STATINTL

2. The following officers were present: 
President, and  Vice President.

STATINTL

3. The meeting was called to order at 2:10 p.m. by the Chairman. The Minutes of the last meeting were approved as read.

4. The letter from Mr. A. W. Randall, Vice President, Mutual of Omaha, was considered. In connection with this, the President briefed the Board on problems and plans and progress of the "Open Period," as well as the reasons for increased rates. The Chairman of the Board also added comments regarding the recent meeting with

Mr. Randall. Following the discussion of the Randall letter and the proposed increased rates, the following motion, revised by the Chairman, was made by [REDACTED] and passed unanimously by the Board: "I move that the proposed increase in premiums, as set forth in the letter of 20 June 1961, from A. W. Randall, Vice President, Mutual of Omaha, become effective 1 November 1961, for a period of one year, consisting of an increase in the rates for the single plan, high option, from \$3.53 per month to \$5.64 per month, and an increase in the family plan from \$14.00 per month to \$15.50 per month, and the additional benefits to include certain services of a dentist, podiatrist, a liberalized surgical schedule, and a new lifetime maximum benefit of \$20,000.00, be approved by the Board of Directors."

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5. The subject of the Annual Audit Report was discussed and a drafted reply was approved for referral, with the endorsement of the Board of Directors.

6. Verbatim minutes were recorded and are available for future use.

7. There being no further business, the meeting was adjourned at 3:30 p.m.

Respectfully submitted,

[REDACTED]
Vice President

STATINTL

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STATINTL The GEHA Board of Directors met (in room 1402 I Bldg) on 6 July 1961 from 2:10 to 3:30 p.m., with the following present: [redacted] STATINTL

[redacted] Tietjen [redacted]

. . . . The minutes of the previous meeting were approved as read

STATINTL [redacted] We have ^{Mr.} Randall's letter of 20 June 1961 proposing an increase in the premiums. This followed a meeting [redacted] myself and [redacted] had with Al Randall and [redacted] the local Mutual representative here--and Randall was here principally because, as they saw it, the company needs to increase the premium with the forthcoming contract which has to be set up for the year beginning 1 ^{NOVEMBER} ~~October~~ 1961. STATINTL

As you recall, when this program went into effect the contract was to extend without change ^{thru} ~~thru~~ October 1961 from July 1960. Any proposed change in the contract, of course, has to be approved by the Civil Service Commission, ^{As} we asked that they make ^{the} proposal that they thought best under their statistics and judgment, and discuss various aspects of their experience, and some of this had to be projected, and try to visualize how premiums would be running and the claims ratio would be running/ ^{in the forthcoming} [redacted] insurance year. ILLEGIB

So this required a little doing, because, as you all know, there is some

ILLEGIB [redacted] variation in these figures. [redacted] can explain our method of bookkeeping as against the insurance company's method of bookkeeping - and there is always a slight difference there. STATINTL

ILLEGIB John, why don't you pick it up from there in discussion of the proposal, and then we can go over these figures and if we feel satisfied or come to some agreement here on what it could be we could go ahead and make a recommendation ^{to} [redacted] the Agency and then to the Civil Service Commission, etc., or, if we feel that we need additional information on this matter we can ask/Mutual of Omaha for additional statistics and we can compile our own statistics, all with a view of establishing what we believe to be a proper premium in anticipation of the next year.

Now just one final thing. Part of our thinking in consideration of this was this fact: [redacted] henceforth the program will be on a yearly basis - in other

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words, you will have a yearly insurance contract, and if we could do so I think it would be better to arrive at a premium rate which might continue for two years or possibly three years, rather than every year renegotiating a new contract with an increase in premiums, with all the bookkeeping that has to take place with the Comptroller and Division of Finance, and then the inevitable questions which will arise with the employees themselves as to why each year we keep tightening the premium rate. Now if we can come up with an equitable plan here which might extend for several years, then I think we would be much better off.

John?

STATINTL

[redacted] Well, your problem is this: the amounts paid out under this are just too near the amounts that were paid in. In Randall's letter he

ILLEGIB

states [redacted] "The estimated premium for the period is \$1,223,629 and the estimated incurred claims for the same period are \$1,146,678."

Now we keep ours on a cash basis; in other words, we know what checks we have paid out and we keep our figures that way without trying to project it. As of October 1st we will know that we have spent so much money; on the other hand, there are claims which will come in, and from experience we know they will come in from a year to 18 months afterwards for the period prior to October. So they have projected it, and they have projected it based on some figures from our own plan before - going back to 1956, 1957 and 1958 where they have been able to run this period out, where they get the last claim for a particular month, and their claims were running in some of those months 118%, or what I would call 18% more than the amount that they had paid in that month by the end of the month.

ILLEGIB

[redacted] Then they tailed off to 118%. So that your cash figure at the end of the month you have to figure in all the [redacted] claims that come in in the future, and according to this we have run too close. The Civil Service Commission had already called and was worried about [redacted] the amount we were paying out as [redacted] against what was coming in. They then established the rule that you couldn't use any of that 3% reserve this time. I wrote a letter

ILLEGIB

I hope that if we put in these proposed rates and then are able to use that 3% we will be able to hold this for at least two or three years.

ILLEGIB

Now I have some statistics here, which I thought were quite interesting, put out by HEW, and it shows that even since this Government Program has gone in all types of charges - hospital charges, doctors' charges, and the others, have all gone up. The only one that has held the line is drugs - because of publicity recently.

* * * * *

*General
Discussion*

STATINTL

I made a little chart here which shows you the other plans in the area, and this doesn't help any when prices go up, but I think our people might look at it that they have been lucky for 18 months ~~because~~ because they have had the best plan at the lowest price. We don't know yet whether Aetna or Blue Cross will raise their prices. The only information I could get is that Aetna is going to tighten up on its coverage--I imagine in the psychiatric field. But for the past 18 months we've been paying \$7.24 on our family plan, and with the proposed rate they will be paying only \$8.74, whereas Blue Cross is \$12.61. Foreign Service is the only one that is lower, and it's not comparable because it's a \$35 deductible for each illness or accident and only 80% of hospital extras and surgical fees.

STATINTL

Omaha is still keeping its books on the basis of claims incurred in the original month, isn't ~~that~~ that right? In other words, we are on a cash basis. Claims may not come in for awhile but they go back to the month they were incurred, right? - in their bookkeeping?

STATINTL

[redacted] We might take a look at these last two items that Len passed around. Now what I hoped we could do, by projecting this a little bit for your benefit, both on a yearly and annual basis, you can see just where the money from the premium is going. Of course, you have the basic premium - claims against that premium - the 4% to the Civil Service Commission, and the administrative fee, in effect, that Mutual of Omaha expects in handling the plan. Now part of their fee - originally they said that on the basic plan they would like to have 10%--this has always been their hope but they have never really gotten 10%, and it has always run less than that with us. / I think 8% ^{Now out of this 10%--} has been a closer average to what they have gotten--there are certain expenses - such as State registration--I think there is something for each policy--a State tax that automatically goes out. So all of this is deducted from their fee. And they have been rather fair about it. ^TThey have also considered the fact that we are doing most of the processing, the collection, the adjusting in the payment

ILLEGIB

[redacted]

STATINTL

[] I might explain one thing here. All claims go in a sterile form to them. They are reviewed by them and they are put in a machine and then we are fed back statistics, and then they furnish statistics to the Civil Service Commission.

STATINTL

[] How much should we strive to establish this loss ratio at about 90%, which would give them what? 10% profit?

STATINTL

[] wanted 8 originally.
Should we try to make it 10 or keep it at 8?
8 is all right. Actually their retention is 4½ by their contract with the Commission, for just pure retention--and they ~~will~~ will have enough for this, plus the 3% that we have in the Commission pot.

STATINTL

[] Well, it seems to me we have a good story to tell on this. It seems to me the employees are well protected here in the sense that if there is some better experience, if this thing shakes down, as our distinguished Vice President says, it really comes back to us and is under our control in terms of any reasonable kind of comeback that one can think of. Certainly our loss experience over the last six months is enough, it would seem to me, that would fully justify this kind of increase. I just wondered a little bit about these extra benefits that were mentioned in Mr. Randall's letter. I hadn't heard about those before.

ILLEGIB

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STATINTL

Q. [] What are the advantages and disadvantages of a yearly contract versus a premium rate that would take us over a two or three year period? It would seem to me that if we consider the possibility of Civil Service claiming some of the reserve or excesses, it might be an advantage to negotiate on a one year or yearly basis.

ILLEGIB
STATINTL

[]

[] explained answer to this question.

* * * * *

DR. TIETJEN: Is there some simple understanding regarding what might appear to be a percentage inequity in the proposed rates--for example, the family rate presently, in your second column here, is \$14.00 and the proposed rate is \$15.50; and the same type of plan, the present rate for^a/single employee is \$3.53 and the proposed rate is \$5.64. Percentagewise the rate increase for the single premium is almost 60%, whereas the family plan amounts to less than 10%.

STATINTL

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[]

replied to above.

[] This single rate was brought up to take care of the maximum Government contribution.

STATINTL

Q. [] John mentioned co-insurance in a very favorable light a moment ago when you mentioned Foreign Service. Do you have any statistics or records to show what volume or how many claims you receive that are \$50 or less?

General [] Discussion

STATINTL

[] If in the future costs keep going up and we have to do something to come out with a reasonable program for providing some care, then I think shoving in a deductible like the Foreign Service has would be a good way of putting a brake on that - reducing the cost line and then maintaining the benefits where they are really needed.

ILLEGIB

STATINTL

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[] They have made an arbitrary ruling on the Reserve as of this time. This ^{was} ~~is~~ not ^{our} ~~the~~ understanding ^{of the} ~~is~~ basic agreement expressed by the Civil Service Commission, in which we went back and replied to as our understanding. So if at any point there is a serious need for tapping those reserves I think we can easily make a case--and with our memorandum on record expressing our original position, I don't think we would have too much difficulty.

STATINTL

ILLEGIB

[redacted] Any questions on this proposal now, as to whether or not we should go ahead with it? Does anybody feel there is inadequate justification or experience here to propose this and justify it? [no response]

ILLEGIB

[redacted] I would like to hear a motion/ on this proposal. Could we express it for the benefit of the record here? And I would reference it to this letter, too.

STATINTL

[redacted] Yes, with the understanding which we have of the controls against any unwarranted income by the underwriter, I would make a motion that we go to the membership--I guess we will have to, won't we? - to raise the rates?

STATINTL

[redacted] No - on raising the rates this is the function of the Board of Directors in negotiating the contract, together with the approval of the Agency as a policy matter, together with the approval of the Civil Service Commission.

STATINTL

[redacted] Then I have another question in that case. In the event we up the rates now and then find that the claims do^{not} increase, we are in a position then of changing the rates to lower them?

STATINTL

[redacted] Yes - we can go up or down, as the case may be. Well, then, without that reservation I would make a motion that we do up the rates as recommended. I wouldn't be in a position of suggesting any other figure.

STATINTL

[redacted] I would second that motion. This is a quite justifiable increase. I don't think anybody has any reservations about it.

STATINTL

[redacted] Could I express the motion, then, if I may--and this is for you--in terms better suited for the record: I move that the proposed increase in premiums as set forth in the letter of 20 June 1961 from A. W. Randall, Vice President, Mutual of Omaha, become effective 1 November 1961 for a period of one year, consisting of an increase in the rates for the single plan from \$3.53 per month to \$5.64 per month, and an increase in the family plan from \$14.00 per month to \$15.50 per month, and the additional

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benefits to include certain services of a dentist, podiatrist, a liberalized surgical schedule and a new lifetime maximum benefit of \$20,000 -- be approved by the Board of Directors.

Now I think we ought to qualify this--and this is for the Board of Directors--we ought to note for the record the fact that this will have to be approved by the Agency and the Civil Service Commission.

. . . . Above motion was then put to a vote and carried

STATINTL

[] For the record, I would like to suggest that next year if there is a need to take further action - say the claims don't go down, that some consideration be given to co-insurance.

STATINTL

[] I would think that would be a useful option to look at - \$25 or \$30 - on this co-insurance business.

STATINTL

[] Could an insurance company in giving back statistics give it to you in such a form that it would be useful for this purpose?

STATINTL

[] Sure.
I think you would find, if you got such statistics, that every time the employees put out \$25 or \$30 on the initial illness which they otherwise might have claimed under a program, and you amass that total and then take the increase per premium per member of the group, ~~and~~ you would find that the mass of money paid out by the individuals would far, far exceed the total of increased premiums; and again I think you will find that as a rule the impact of this \$25 and \$30 hits the people who are least prepared to pay and who need the insurance the most. Now this is just my ~~4~~ understanding, but I think this could be justified. I have seen this in other studies.

(9)

STATINTL

[] This is the way I visualize our course of action:
Prepare a letter through the Director of Personnel to Colonel White and General Cabell on the proposed increase and authorizing us to go ahead and negotiate with the Civil Service Commission, and if the CSC approves we can start preliminary negotiations with them on this basis - subject to Agency approval. Then, if this is done, very shortly we would get out a notice to all employees stating the increase in premiums together with some justification to support this, and of course showing the increase in benefits that have been obtained.

STATINTL

[] We have one other item of business, namely, the reply to the Chief, Audit Staff.

I have only one question, John, and it's on page one of your reply, paragraph 1.a. - "Instruct personnel to transfer cash receipts to the Cashier as soon as possible after receipt." ~~an~~ In the Audit Report they show that certain payments received in Jan. and Feb. were not transferred until about the 10th of March 1961. Now does this statement here really cover that, or do we need a back-up all along the line.

STATINTL

[] What they were talking about was this Treasury check which we get.

Nothing was held up. But because of the fact that we had this dividend thing dropped on us in December, and we got it out, it was held up - it was locked up in the safe.

STATINTL

[] Here's what happened. The check came in and our girls usually, before they deposit it, they balance out all their accounts, but they were so busy they didn't balance these two accounts out and cash the checks. They could have put those checks in the bank and balanced out the accounts any

STATINTL

ILLEGIB

*said this was
approved in paragraph 2.*

(10)

time, but in the rush it was just a plain "goof"

ILLEGIB

STATINTL

[redacted]
[redacted] this is all explained in paragraph c.

STATINTL

[redacted] And better make a note, since this is a recommendation and is set forth ^{on} page 3, ^{of} paragraph d. - quarterly report to the Board of Directors on insurance plans whose subsidiary records have not been reconciled as scheduled--since this is in the audit report let's be sure there is a quarterly report on this.

STATINTL

[redacted] You might add ~~in~~ there, too, that this report has been reviewed by the Board of Directors.

STATINTL

[redacted] Yes, add a last paragraph: ^T this report has been reviewed and approved by the Board of Directors.

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Next 1 Page(s) In Document Exempt

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